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Home Federal
Bank

October 3, 2000

Manager, Dissemination Branch
Information Management and Services Division
Office of Thrift Supervision
1700 G Street, N. W.
Washington, D. C. 20552

2000 OCT -3 P 2:30

VIA FACSIMILE 202-906-7755

RE: Proposed Collection: Comment Request for Revenue Ruling 2000-33

To Whom It May Concern:

We offer the following comments relative to proposed changes to the TFR concerning high loan-to-value loans, sub-prime data request, trust assets and certain other categories:

GENERAL COMMENTS

A. Home Federal is a very sound, conservative bank with a seventy-five year history of thrift and banking operations. Our examination reports should confirm this statement as factual. Now once again, the risky activities of a small number of institutions is placing an additional operational and information gathering burden on conservative institutions like Home Federal. Seems to us that our regulators could address these issues without having to apply punitive reporting measures across the board. We realize that the proposal indicates that institutions not involved in these activities are not required to file these data items. However, new regulations tend to include language that somehow affects all institutions. In the case of sub-prime lending, the definition accorded these loans is so vague we cannot determine our bank's involvement.

B. The current TFR consists of some thirty-seven pages of financial and operational data. We have committed considerable resources to complete this report, both timely and accurately. Changes and additions to the TRF require us to add

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personnel, provide training and purchase software. This is both expensive and time-consuming. The current proposal is very complex and will require a commitment of scarce resources, especially personnel. We operate in a very tight labor market which at times has left us understaffed at a level of up to 10%. To have software available to gather the information proposed by the scheduled due date would be near impossible.

C. We must mention the intense regulatory burden placed on thrift institutions over the last several years. It remains a very difficult task to maintain compliance in today's financial marketplace. It is a constant drain on both human and financial resources. Just last year we spent well over a million dollars to meet YEAR 2000 compliance, which was a complete regulatory overkill. We, therefore, are very skeptical of proposed regulations and their impact on our ability to allocate scarce resources to our number one priority which is providing for our customers.

SPECIFIC COMMENTS

I. High Loan-to-Value Loans:

A. We do not currently have the computer software available to track loan-to-value ratios on a combined basis between residential, consumer and commercial. In cases where loans are cross-collaterized, we are tracking this information manually.

B. We would hope this proposal would allow loans to drop out of this high LTV category as amortization reduces the loan balance to a normal level.

C. These proposed regulations could have a negative impact on some of our CRA lending programs depending on what regulatory actions come about from the monitoring process.

II. Sub-prime Loans:

A. The proposed definition is too vague. What is a traditional bank lending customer? Our underwriting standards look at several credit risk measures, including: collateral; capacity to repay; credit history; credit scores; and etc. Which one of these items or what combination of these items would invoke the sub-prime classification?

B. We are primarily a portfolio lender and desire to increase our loan outstandings. From a home loan standpoint, we utilize our "home grown" underwriting standards rather than relying completely on FNMA standards. This allows us to effectively operate as a community bank with the flexibility to serve our local customer niche with "customized" service. The local knowledge and experience gained during our seventy-five year history keeps us competitive with other banks, mortgage companies and other financial entities in the area. The proposed regulation is a threat to our business philosophy by possibly eliminating our community focus. If the result of this proposal forces us only to utilize FNMA underwriting standards like all of our competitors, then our product (the loan) is no different from everyone else's in town. We don't want to lose our competitive edge. The question becomes, "Does any exception to FNMA standards constitute a sub-prime classification?"

C. Same comment as noted under high LTV loans regarding impact on CRA lending programs.

D. The ability to provide initial reporting on sub-prime loans does not exist and would require a considerable effort to go back and categorize individual loans. It is unlikely that our software vendor can accomplish this effort by the first quarter of next year. Has any thought been given to make this requirement prospective for only new loans?

E. We definitely support a de minimus level of sub-prime loans for which reporting is not required. A de minimus cap would allow for a level, say 10%, of loans which we feel would be consistent with a local community bank like Home Federal.

F. What impact will the sub-prime classification (and high LTV reporting) have on our bad debt reserve?

III. Junior Liens:

A. It will be difficult to segregate first mortgage and junior liens on what we classify as home equity loans. It will require computer resources and personnel to examine each loan to properly report this information.

IV. Fiduciary and Related Services:

No Comments

V. Summary:

Our current examination schedule includes: safety and soundness; compliance; trust; and computer. We have a complete audit by our external certified public accountants. We have a fully staffed Internal Audit Department. The results of all our exams and audits have been very favorable. We maintain general bad debt reserves well above our peer groups. We have a net worth position, as a mutual, of over 12%.

The proposed regulation places an undue hardship on Home Federal which we feel is undeserved given our conservative philosophy and our financial strength. This regulation will likely require us to re-examine most loans as of the origination date to determine whether a sub-prime or high LTV category exists. This will be an expensive and time-consuming project.. Please consider allowing us to gather this information on a new loan basis (prospectively). Please give consideration to the efforts you are asking us to make.

Sincerely,

Ray Thomas

Ray Thomas
Executive Vice President